

Business Opportunities (multilevel marketing)

It's exciting to think about starting your own business and you don't have to look far to find offers for business opportunities. Many offers involve multilevel marketing plans. These are business plans that offer you a chance to sell products or services as part of a distributor system. The promoters claim it's a chance to become involved in a "new way to market" or "unique new idea" that will result in financial success. Unfortunately, the opportunity is seldom as easy, or as financially rewarding, as the promoter would like you to believe.

Classified ads promote offers

Promoters use classified advertising and direct mail to



solicit investors and distributors. The most common opportunities involve vending machines that dispense food, juice, personal care items, laundry products, stamps, newspapers, or an endless variety of other products. Other plans relate to real estate ventures, retail sales operations, telephone services, farm supplies, magazine sales, and loan brokering, to name just a few.

Be cautious of advertisements with:

- No company name or address.
- Only a telephone number (especially if it is a hotel number).
- Income promises that sound too good to be true (that's because they are).
- Vague phrases that leave you wondering what the business really involves.

Common problems

As a result of investigations associated with multilevel marketing and business

opportunity plans, that state has identified some common problems. These include:

#1 Exaggerated profits

A major problem with multilevel marketing and business



opportunity advertising is the overstatement of earning potential—claims that you can make more money than possible. Many business promoters use hypothetical income projections—income that could be possible, rather than amounts really being made. Actual income examples that are provided usually do not reflect the income experience of most distributors or investors.

Much of the income to be earned is derived through

commissions on your own sales, plus a share of the commissions earned by your sales team. However, you must first recruit a sales team. The more people you recruit, the greater your earning potential.

#2 Exaggerated market

Another problem is the overstatement of market potential for the service or product you're interested in selling. In other words, the promoter usually tells you you'll be able to sell more products or that more people will be interested in your service than is realistic.

#3 Denying the offer involves a pyramid scheme

Pyramids or chain distributor schemes are used to describe marketing plans which involve recruiting participants in order to create "levels" within an organization. Sometimes that plan involves selling merchandise or services, but the emphasis is primarily on recruiting other participants. For instance, you make money by recruiting four other people to join the scheme, and additional money if they each recruit four people, and on and on (the number of people being recruited spreads like a pyramid). Wisconsin Administrative Code ATCP 122 prohibits the promotional use of chain distributor schemes as an unfair trade practice.

#4 Claiming the plan is new

Multilevel marketing plans are not a new way to market. A plan may have unique features, but if it is based on an incentive to recruit members or distributors, it is not a new way to market.

#5 Claiming no selling is involved

If the company has a multilevel marketing plan, there is selling involved, because recruiting others to sell is still considered selling.



#6 Conflicting oral statements

Frequently the promoter will make oral statements which differ from written material. All oral statements should be accurate. There should be no discrepancies between what is written and what is said.

#7 Approval or endorsement claims

Some promoters claim the Bureau of Consumer Protection, Better Business Bureau, Chamber of Commerce, or other

organization or government agency endorses or has approved the marketing plan. None of the above agencies endorses or approves any specific marketing plans. To represent any affiliation, connection, approval, or certification by any agency or organization when there is no connection or approval is illegal.

Check all promises

Before you invest in a business opportunity or multilevel marketing plan, do the following:

1. Obtain the names of **at least 10** other investors and discuss with these investors their experience in the plan or with the promoter. It is worth the money spent on telephone calls to check with 10 persons who have entered into, for at least one year, the same type of distributorship or plan you are considering.
2. Obtain specific proof of income representation. Ask what percentage of people actually achieved the level of income, the time period it represents, and how long it took to achieve the level of income.
3. Obtain specific proof that you will have a good market. Get all verbal promises in writing. Ask how many other distributorships will be sold or are

- already operating in the area.
4. Ask for copies of the company's business and financial statements. Who are the principal investors or owners? Do the owners and officers have prior business experience? Where is the company incorporated? If the amount of money you intend to invest is large, you might consider hiring a private investigator to look into the company and its officers.
 5. Determine all costs you must pay. Do start-up fees pay for such things as training, sample products, literature, or display materials?
 6. Find out if the company will buy back your inventory if you decide to quit. It's a good idea not to invest in more inventory than you think you can sell. A common scheme, however, requires salespeople to make a large initial inventory purchase.
 7. Talk to local business people who are familiar with the product and the market before you decide to invest.
 8. Find out if any special licenses or permits are required. For instance, in Wisconsin, certain food vending machines require an operator's permit and approval from the state. Other vending machines

- may not be required to be licensed by the state, but may be required to be licensed at the local level. For more information on state vending machine licensing requirements, contact the Department of Health and Family Services, Division of Health, 1 W. Wilson St, Madison, Wisconsin 53702, (608) 266-2835.
9. Check for complaints on file with the Bureau of Consumer Protection or Better Business Bureau. Be cautious. Don't decide to do business with a company just because no complaints have been filed.
 10. Always consult with a private attorney or certified accountant regarding the specifics of the plan or concerns about the contract. Do not rely on the advice of company representatives who will benefit by your decision to invest. Get all promises in writing.

State role

The state of Wisconsin has no registration requirements for multilevel marketing plans. The Bureau of Consumer Protection does review business opportunity and multilevel marketing offers in its role of enforcing the state's deceptive advertising and unfair trade practices laws

(section 100.18 and 100.20 of the statutes). Wisconsin trade practices laws generally prohibit unfair practices and misrepresentations. The deceptive advertising law prohibits representations that are untrue, deceptive, or misleading. Violations of sections 100.18 and 100.20 are subject to civil forfeitures of not less than \$50 nor more than \$200 per violation.

Wisconsin Administrative Code ATCP 122 prohibits "the promotional use of a chain distributor scheme" as an unfair trade practice. However, there is no legal definition of the terms multilevel marketing or pyramid plan. Wisconsin Administrative Code ATCP 116 regulates contracts and disclosure requirements regarding offers of employment.

For more information, or to file a complaint, contact the Bureau of Consumer Protection at:

(800) 422-7128

FAX: (608) 224-4939

TTY: (608) 224-5058

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